

**CITY OF ROYAL, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2007**





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# CITY OF ROYAL, IOWA

## Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2008)</b>		
Pam Virelli	Mayor	12/31/09
Bill Burgeson	Council Member	12/31/09
Becky Smoot	Council Member	12/31/09
Arlene Wimmer	Council Member	12/31/07
Monica Kelly	Council Member	12/31/07
Jeff Van Westen	Council Member	12/31/07
Barbara Fletcher	Clerk/Treasurer	Indefinite
Bradley Howe	Attorney	Indefinite
<b>(After January 2008)</b>		
Pam Virelli	Mayor	12/31/09
Bill Burgeson	Council Member	12/31/09
Becky Smoot	Council Member	12/31/09
Arlene Wimmer	Council Member	12/31/11
Monica Kelly	Council Member	12/31/11
John Roberts	Council Member	12/31/11
Barbara Fletcher	Clerk/Treasurer	Indefinite
Bradley Howe	Attorney	Indefinite

## INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council  
City of Royal, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Royal, Iowa, (the City) as of and for the year ended June 30, 2007, which collectively compromise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008 on our consideration of the City of Royal, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Williams & Company, P.C.*

Certified Public Accountants

Spencer, Iowa  
June 30, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Royal provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- The City's total cash basis net assets decreased \$159,537 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$16,782 and the assets of the business type activities decreased approximately \$142,755.

### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basis financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

### **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### Government-wide Financial Statement

One of the most important questions asked about the City's finances is *"Is the City of Royal as a whole better off or worse as a result of the year's activities?"* The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the waterworks and sanitary sewer system. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. **Governmental Funds** account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road-Use Tax and Local Option Sales Tax, and 3) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. **Proprietary Funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer. The water and sewer funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

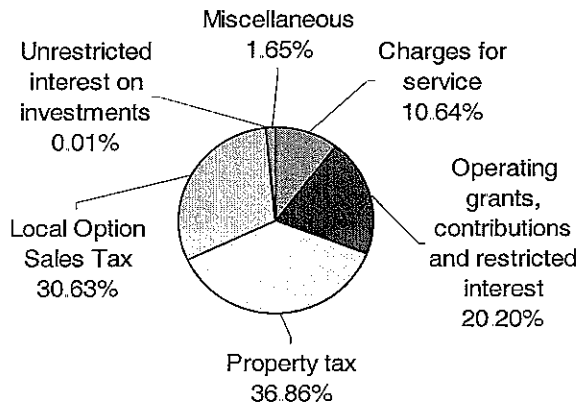
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$100,165 to \$83,383. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.



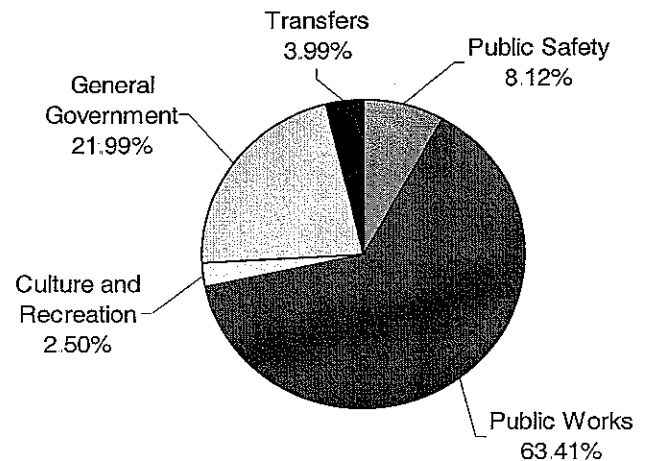
## Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 22,005
Operating grants, contributions and restricted interest	41,789
General receipts:	
Property tax	76,246
Local Option Sales Tax	63,343
Unrestricted interest on investments	209
Miscellaneous	3,417
Total receipts	<u>207,009</u>
Disbursements:	
Public Safety	18,150
Public Works	141,792
Culture and Recreation	5,774
General Government	49,164
Transfers	8,911
Total disbursements	<u>223,791</u>
Decrease in cash basis	(16,782)
Cash basis net assets beginning of year	<u>100,165</u>
Cash basis net assets end of year	<u><u>\$ 83,383</u></u>

**Receipts by Source**



**Disbursements by Function**



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 68,346
Sewer	37,066
Capital grants, contributions and restricted interest:	
Sewer	720,378
General receipts:	
Unrestricted interest on investments	3,613
Transfers	8,911
Total receipts	<u>838,314</u>
Disbursements:	
Water	76,277
Sewer	<u>904,792</u>
Total disbursements	<u>981,069</u>
Decrease in cash basis	(142,755)
Cash basis net assets beginning of year	<u>123,231</u>
Cash basis net assets end of year (deficit)	<u>\$ (19,524)</u>

The total business type activities cash balance decreased from a year ago, decreasing from \$123,231 to a deficit of \$19,524.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Royal completed the year, its governmental funds reported a combined fund balance of \$83,383, a decrease of \$ 16,782 from last year's total of \$100,165. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$46,680 from the prior year to \$6,982.
- The Local Option Sales Tax Fund increased \$27,108 from the prior year to \$53,298. This increase was attributable to local option sales tax received exceeding disbursements.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance decreased \$91,588 to a deficit of \$36,098.
- The Water Fund cash balance decreased \$51,167 to \$16,574.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 9, 2007 and resulted in an increase in operating disbursements related to the possible cost overrun of approximately \$258,000 regarding the sewer project. Total disbursements were \$10,514 less than the amended budget.

The City exceeded the amounts budgeted in the business-type activities for the year ended June 30, 2007. This was due to sewer lagoon construction project.

## **DEBT ADMINISTRATION**

At June 30, 2007, the City had \$526,906 of outstanding debt, compared to \$32,104 last year. Debt increased as a result of issuing debt for the sewer lagoon construction project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$8,689 is significantly below its constitutional debt limit of \$407,540.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Royal's elected and appointed officials and citizens considered many factors when settling the fiscal year 2008 budget, tax rates and fees charged for various City activities. One of those factors is the economy. The last two years were stable for the City, with the exception of the sewer lagoon construction project.

Budget disbursements are expected to rise slightly. Increased wage, cost-of-living adjustments and maintenance costs represent the largest increases for the city. All of the aforementioned will be taken into consideration in planning the 2008 budget.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of the City Clerk at 712-933-2421.

**CITY OF ROYAL, IOWA**  
**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
<b>Governmental Activities:</b>				
Public Safety	\$ 18,150	\$ -	\$ 780	\$ -
Public Works	141,792	21,755	34,639	-
Culture and Recreation	5,774	-	6,370	-
General Government	49,164	250	-	-
<b>Total Governmental Activities</b>	<u>214,880</u>	<u>22,005</u>	<u>41,789</u>	<u>-</u>
<b>Business-Type Activities:</b>				
Water	76,277	68,346	-	-
Sewer	904,792	37,066	-	720,378
<b>Total Business-Type Activities</b>	<u>981,069</u>	<u>105,412</u>	<u>-</u>	<u>720,378</u>
<b>Total</b>	<u>\$ 1,195,949</u>	<u>\$ 127,417</u>	<u>\$ 41,789</u>	<u>\$ 720,378</u>

**General Receipts:**

Property and Other City Tax Levied for:  
General Purpose  
Local Option Sales Tax  
Unrestricted Interest on Investments  
Miscellaneous  
Transfers

**Total General Receipts**

**Change in Cash Basis Net Assets**

**Cash Basis Net Assets Beginning of Year**

**Cash Basis Net Assets End of Year**

**Cash Basis Net Assets**

Restricted:

Special Revenue Funds  
Permanent Fund

Unrestricted

**Total Cash Basis Net Assets**

**Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets**

Governmental Activities	Business Type Activities	Total
\$ (17,370)	\$ -	\$ (17,370)
(85,398)	-	(85,398)
596	-	596
(48,914)	-	(48,914)
<u>(151,086)</u>	<u>-</u>	<u>(151,086)</u>
-	(7,931)	(7,931)
-	(147,348)	(147,348)
-	(155,279)	(155,279)
<u>(151,086)</u>	<u>(155,279)</u>	<u>(306,365)</u>
76,246	-	76,246
63,343	-	63,343
209	3,613	3,822
3,417	-	3,417
(8,911)	8,911	-
<u>134,304</u>	<u>12,524</u>	<u>146,828</u>
(16,782)	(142,755)	(159,537)
<u>100,165</u>	<u>123,231</u>	<u>223,396</u>
<u>\$ 83,383</u>	<u>\$ (19,524)</u>	<u>\$ 63,859</u>
\$ 75,372	\$ -	\$ 75,372
1,029	-	1,029
6,982	(19,524)	(12,542)
<u>\$ 83,383</u>	<u>\$ (19,524)</u>	<u>\$ 63,859</u>



**CITY OF ROYAL, IOWA**  
**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES**  
**GOVERNMENTAL FUNDS**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue				Total
	General	Road Use Tax	Local Option Sales Tax	Nonmajor	
<b>Receipts:</b>					
Property tax	\$ 68,322	\$ -	\$ -	\$ 7,924	\$ 76,246
Other City Tax	-	-	63,343	-	63,343
Licenses and Permits	250	-	-	-	250
Use of Money and Property	1,613	213	-	183	2,009
Intergovernmental	4,716	34,426	-	-	39,142
Charges for Service	21,755	-	-	-	21,755
Miscellaneous	3,417	-	-	847	4,264
<b>Total Receipts</b>	<u>100,073</u>	<u>34,639</u>	<u>63,343</u>	<u>8,954</u>	<u>207,009</u>
<b>Disbursements:</b>					
Operating:					
Public Safety	18,150	-	-	-	18,150
Public Works	49,543	47,121	36,235	8,893	141,792
Culture and Recreation	5,107	-	-	667	5,774
General Government	49,164	-	-	-	49,164
<b>Total Disbursements</b>	<u>121,964</u>	<u>47,121</u>	<u>36,235</u>	<u>9,560</u>	<u>214,880</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	(21,891)	(12,482)	27,108	(606)	(7,871)
<b>Other Financing Sources (Uses)</b>					
Operating Transfers In	-	14,909	-	969	15,878
Operating Transfers Out	(24,789)	-	-	-	(24,789)
<b>Total Other Financing Sources (Uses)</b>	<u>(24,789)</u>	<u>14,909</u>	<u>-</u>	<u>969</u>	<u>(8,911)</u>
<b>Net Change in Cash Balances</b>	(46,680)	2,427	27,108	363	(16,782)
<b>Cash Balances Beginning of Year</b>	<u>53,662</u>	<u>9,647</u>	<u>26,190</u>	<u>10,666</u>	<u>100,165</u>
<b>Cash Balances End of Year</b>	<u>\$ 6,982</u>	<u>\$ 12,074</u>	<u>\$ 53,298</u>	<u>\$ 11,029</u>	<u>\$ 83,383</u>
<b>Cash Basis Fund Balance</b>					
Unreserved:					
General Fund	\$ 6,982	\$ -	\$ -	\$ -	\$ 6,982
Special Revenue Funds	-	12,074	53,298	10,000	75,372
Permanent Fund	-	-	-	1,029	1,029
<b>Total Cash Basis Fund Balance</b>	<u>\$ 6,982</u>	<u>\$ 12,074</u>	<u>\$ 53,298</u>	<u>\$ 11,029</u>	<u>\$ 83,383</u>

CITY OF ROYAL, IOWA  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES  
 PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise		
	Water	Sewer	Total
<b>Operating Receipts:</b>			
Charges for Service	\$ 68,346	\$ 37,066	\$ 105,412
<b>Total Operating Receipts</b>	<u>68,346</u>	<u>37,066</u>	<u>105,412</u>
<b>Operating Disbursements:</b>			
Governmental activities:			
Business-Type Activities	76,277	904,792	981,069
<b>Total Operating Disbursements</b>	<u>76,277</u>	<u>904,792</u>	<u>981,069</u>
<b>(Deficiency) of Operating Receipts</b>			
<b>(Under) Operating Disbursements</b>	<u>(7,931)</u>	<u>(867,726)</u>	<u>(875,657)</u>
<b>Non-Operating Receipts:</b>			
Intergovernmental	-	720,378	720,378
Interest on investments	395	3,218	3,613
<b>Net Non-Operating Receipts</b>	<u>395</u>	<u>723,596</u>	<u>723,991</u>
<b>(Deficiency) of Receipts</b>			
<b>(Under) Disbursements</b>	<u>(7,536)</u>	<u>(144,130)</u>	<u>(151,666)</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	-	52,542	52,542
Operating Transfers Out	(43,631)	-	(43,631)
<b>Total Other Financing Sources (Uses)</b>	<u>(43,631)</u>	<u>52,542</u>	<u>8,911</u>
<b>Net Change in Cash Balances</b>	<u>(51,167)</u>	<u>(91,588)</u>	<u>(142,755)</u>
<b>Cash Balances Beginning of Year</b>	<u>67,741</u>	<u>55,490</u>	<u>123,231</u>
<b>Cash Balances (Deficit) End of Year</b>	<u>\$ 16,574</u>	<u>\$ (36,098)</u>	<u>\$ (19,524)</u>
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 16,574	\$ (36,098)	\$ (19,524)
<b>Total Cash Basis Fund Balances (Deficit)</b>	<u>\$ 16,574</u>	<u>\$ (36,098)</u>	<u>\$ (19,524)</u>

**CITY OF ROYAL, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- A. The City of Royal, Iowa, is a political subdivision of the State of Iowa, located in Clay County. It was first incorporated in 1900, and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation and general government services. The city also provides water and sewer utilities for its citizens.

Reporting Entity -- For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations -- The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Clay County Assessor's Conference Board, Clay County Joint E911 Service Board, Clay County Emergency Management Commission, and the Northwest Area Iowa Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements -- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a certain extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints place on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

**CITY OF ROYAL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

**Fund Financial Statements** – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the revenues from the tax authorized by referendum and used for capital improvements, equipment, community programs and services.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Royal maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

**CITY OF ROYAL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation and debt service functions.

**Note 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The City limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.



**CITY OF ROYAL, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 3 –NOTES PAYABLE**

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Notes:					
John Deere Credit	\$ 25,461	\$ -	\$ 16,772	\$ 8,689	\$ 8,689
	25,461	-	16,772	8,689	8,689
Revenue Notes					
1978 USDA Water Rev Capital Loan Note	32,104	-	3,198	28,906	3,358
2006 Sewer Revenue Capital Loan Note	-	350,000	15,000	335,000	15,000
2006 Sewer Revenue Capital Loan Note	-	170,000	7,000	163,000	7,000
	32,104	520,000	25,198	526,906	25,358
Total	\$ 57,565	\$ 520,000	\$ 41,970	\$ 535,595	\$ 34,047

On August 07, 2006, the City issued sewer revenue notes in the amount of \$350,000 for the construction and replacement costs to the Sewer System Utility. The notes bear interest of 3.00% mature annually and are secured by future net revenues of the Sewer System Utility. The revenue notes were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from sewer revenues.

On August 07, 2006, the City issued sewer revenue notes in the amount of \$170,000 for the construction and replacement costs to the Sewer System Utility. The notes bear interest of 3.00% mature annually and are secured by future net revenues of the Sewer System Utility. As of June 30, 2007, the City had drawn \$165,000 on the note. The revenue notes were issued under the provisions of Chapter 384.24A of the Code of Iowa and as such the principal and interest payments are payable solely from sewer revenues.

Annual debt service requirements to maturity for general obligation notes and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$8,689	\$156	\$25,358	\$17,621	\$34,047	\$17,777
2009	-	-	27,526	16,297	27,526	16,297
2010	-	-	27,702	14,799	27,702	14,799
2011	-	-	27,887	13,222	27,887	13,222
2012	-	-	28,081	12,120	28,081	12,120
2013-2017	-	-	137,352	49,500	137,352	49,500
2018-2022	-	-	137,000	29,820	137,000	29,820
2023-2026	-	-	116,000	8,820	116,000	8,820
Total	\$8,689	\$156	\$526,906	\$162,199	\$535,595	\$162,355

**CITY OF ROYAL, IOWA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**Note 4 – PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$3,491, \$3,354 and \$3,085, respectively, equal to the required contributions for each year.

**Note 5 – INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Road Use Tax Fund	General Fund	\$ 14,909
Employee Benefits Fund	General Fund	969
Enterprise: Sewer	General Fund	8,911
Enterprise: Sewer	Enterprise: Water	43,631
Total		<u>\$ 68,420</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**Note 6 – COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned by unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,015
Sick Leave	890
Total	<u>\$ 3,905</u>

This liability has been computed based on rates of pay in effect at June 30, 2007.

**CITY OF ROYAL, IOWA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**Note 7 – DEFICIT BALANCE**

The sewer fund had a deficit of \$36,098 at June 30, 2007. This deficit will be eliminated through receipt of grant revenues.

**Note 8 – LITIGATION CONTINGENCY**

The City is subject to pending litigation seeking damages for legal costs of approximately \$20,000. The probability of loss, if any, could not be determined at the date of this report.

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## **REQUIRED SUPPLEMENTARY INFORMATION**



**CITY OF ROYAL, IOWA**  
**BUDGETARY COMPARISON SCHEDULE**  
**OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -**  
**BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2007**

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts:</b>			
Property tax	\$ 76,246	\$ -	\$ 76,246
Other City Tax	63,343	-	63,343
Licenses and Permits	250	-	250
Use of Money and Property	2,009	-	2,009
Intergovernmental	39,142	720,378	759,520
Charges for Service	21,755	105,412	127,167
Miscellaneous	4,264	-	4,264
<b>Total Receipts</b>	<u>207,009</u>	<u>825,790</u>	<u>1,032,799</u>
<b>Disbursements:</b>			
Public Safety	18,150	-	18,150
Public Works	141,792	-	141,792
Culture and Recreation	5,774	-	5,774
General Government	49,164	-	49,164
Business-Type Activities	-	981,069	981,069
<b>Total Disbursements</b>	<u>214,880</u>	<u>981,069</u>	<u>1,195,949</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	(7,871)	(155,279)	(163,150)
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	15,878	52,542	68,420
Operating Transfers Out	(24,789)	(43,631)	(68,420)
<b>Total Other Financing Sources (Uses)</b>	<u>(8,911)</u>	<u>8,911</u>	<u>-</u>
<b>Net Change in Cash Balances</b>	(16,782)	(146,368)	(163,150)
<b>Cash Balances Beginning of Year</b>	<u>100,165</u>	<u>123,231</u>	<u>223,396</u>
<b>Cash Balances End of Year</b>	<u>\$ 83,383</u>	<u>\$ (23,137)</u>	<u>\$ 60,246</u>

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$ 74,278	\$ 74,278	\$ 1,968
2,033	2,033	61,310
400	400	(150)
1,500	1,500	509
661,300	826,000	(66,480)
126,000	126,000	1,167
-	-	4,264
865,511	1,030,211	2,588
18,630	18,630	480
169,500	169,500	27,708
8,000	8,000	2,226
48,350	48,350	(814)
703,800	961,800	(19,269)
948,280	1,206,280	10,331
(82,769)	(176,069)	12,919
-	-	(68,420)
-	-	68,420
-	-	-
(82,769)	(176,069)	12,919
476,280	476,280	(252,884)
\$ 393,511	\$ 300,211	\$ (239,965)

**CITY OF ROYAL, IOWA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**  
**FOR THE YEAR ENDED JUNE 30, 2007**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursement for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$258,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the general government function and business type function.

## OTHER SUPPLEMENTARY INFORMATION

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CITY OF ROYAL, IOWA  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
 AND CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Special Revenue			Total
	Employee Benefits	Expendable Library Trust Fund	Permanent Memorial Park	
<b>Receipts:</b>				
Property Tax	\$ 7,924	\$ -	\$ -	\$ 7,924
Use of Money and Property		183	-	183
Miscellaneous	-	-	847	847
<b>Total Receipts</b>	<u>7,924</u>	<u>183</u>	<u>847</u>	<u>8,954</u>
<b>Disbursements:</b>				
Public Works	8,893	-	-	8,893
Culture and Recreation	-	183	484	667
<b>Total Disbursements</b>	<u>8,893</u>	<u>183</u>	<u>484</u>	<u>9,560</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	(969)	-	363	(606)
<b>Other Financing Sources</b>				
Operating Transfers In	969	-	-	969
<b>Total Other Financing Sources</b>	<u>969</u>	<u>-</u>	<u>-</u>	<u>969</u>
<b>Net Change in Cash Balances</b>	-	-	363	363
<b>Cash Balances Beginning of Year</b>	-	10,000	666	10,666
<b>Cash Balances End of Year</b>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 1,029</u>	<u>\$ 11,029</u>
<b>Cash Basis Fund Balances</b>				
Unreserved:				
Special Revenue Funds	\$ -	\$ 10,000	\$ -	\$ 10,000
Permanent Fund	-	-	1,029	1,029
<b>Total Cash Basis Fund Balance</b>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>\$ 1,029</u>	<u>\$ 11,029</u>

**CITY OF ROYAL, IOWA  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2007**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
<b>General Obligation Debt:</b>			
John Deere Credit	12/10/2001	4.75%	\$ 78,280
<b>Revenue Notes:</b>			
2006 Sanitary Sewer Project	7/15/2006	3.00%	\$ 350,000
2006 Sanitary Sewer Project	7/15/2006	3.00%	170,000
Water Loan-USDA	10/2/1978	5.00%	81,000
<b>Total</b>			

SCHEDULE 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 25,461	\$ -	\$ 16,772	\$ 8,689	\$ 917
\$ -	\$ 350,000	\$ 15,000	\$ 335,000	\$ 7,409
-	170,000	7,000	163,000	2,797
32,104	-	3,198	28,906	1,605
\$ 32,104	\$ 520,000	\$ 25,198	\$ 526,906	\$ 11,811

See Accompanying Independent Auditor's Report



**CITY OF ROYAL, IOWA  
BOND AND NOTE MATURITIES  
JUNE 30, 2007**

<u>General Obligation Bonds</u>		
<u>John Deere Credit</u>		
<u>Issued Dec 10, 2001</u>		
<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2008	4.75%	\$ 8,689
Total		<u>\$ 8,689</u>

<u>Revenue Notes</u>								
<u>Sanitary Sewer</u>			<u>Sanitary Sewer</u>			<u>Water-USDA</u>		
<u>Issued July 15, 2006</u>			<u>Issued July 15, 2006</u>			<u>Issued Oct 2, 1978</u>		
<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>	<u>Year</u> <u>Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rates</u>	<u>Amount</u>
2008	3.00%	\$ 7,000	2008	3.00%	\$ 15,000	2008	5.00%	\$ 3,358
2009	3.00	8,000	2009	3.00	16,000	2009	5.00	3,526
2010	3.00	8,000	2010	3.00	16,000	2010	5.00	3,702
2011	3.00	8,000	2011	3.00	16,000	2011	5.00	3,887
2012	3.00	8,000	2012	3.00	16,000	2012	5.00	4,081
2013	3.00	8,000	2013	3.00	17,000	2013	5.00	4,285
2014	3.00	8,000	2014	3.00	17,000	2014	5.00	4,500
2015	3.00	8,000	2015	3.00	17,000	2015	5.00	1,567
2016	3.00	8,000	2016	3.00	17,000	Total		<u>\$ 28,906</u>
2017	3.00	9,000	2017	3.00	18,000			
2018	3.00	9,000	2018	3.00	18,000			
2019	3.00	9,000	2019	3.00	18,000			
2020	3.00	9,000	2020	3.00	18,000			
2021	3.00	9,000	2021	3.00	19,000			
2022	3.00	9,000	2022	3.00	19,000			
2023	3.00	9,000	2023	3.00	19,000			
2024	3.00	9,000	2024	3.00	19,000			
2025	3.00	10,000	2025	3.00	20,000			
2026	3.00	10,000	2026	3.00	20,000			
Total		<u>\$ 163,000</u>	Total		<u>\$ 335,000</u>			

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**CITY OF ROYAL, IOWA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2007**

Grantor/Program	CFDA Number	Program Expenditures
Indirect:		
US Department of Housing and Urban Development:		
Iowa Department of Economic Development:		
Community Development Block Grants/State's Program	14 228	\$ 210,578
Environmental Protection Agency		
Iowa Finance Authority		
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	429,167
Total		<u>\$ 639,745</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Members of the City Council  
The City of Royal  
Royal, Iowa

We have audited the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Royal, Iowa (City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated June 30, 2008. The financial statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 and II-B-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclose no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Williams & Company, P.C.*  
Certified Public Accountants

Spencer, Iowa  
June 30, 2008

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Members of the City Council  
The City of Royal  
Royal, Iowa

Compliance

We have audited the compliance of the City of Royal, Iowa (City), with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The City's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards, and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Royal complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Royal is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item III-A-07 and III-B-07 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item III-A-07 and III-B-07 to be material weaknesses.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Royal and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Williams & Company, P.C.*  
Certified Public Accountants

Spencer, Iowa  
June 30, 2008

**CITY OF ROYAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Part I: Summary of the Independent Auditors' Results**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over the major program were disclosed by the audit of the financial statements, which are considered to be material weaknesses.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
  - CFDA Number 14.228 – Community Development Block Grants/State's Program.
  - CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) City of Royal, Iowa did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**SIGNIFICANT DEFICIENCIES:**

- II-A-07      Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and other recordkeeping functions are performed by the same employee.

Recommendation – We realize segregation of duties is difficult with limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this

Conclusion – Response accepted



**CITY OF ROYAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

II-B-07      Financial Reporting – While planning the audit, we identified several errors in posting and classification. These were corrected by City staff. Many of these adjustments were due to lack of knowledge regarding governmental accounting by the staff.

Recommendation – The City should follow the uniform chart of accounts to ensure that all entries are recorded in the proper accounts. The City should consider providing staff with additional training in governmental accounting.

Response – The City will implement procedures to ensure the proper recording and classification of transactions, and will provide training or consultation needed to assist its staff.

Conclusion – Response accepted.

**Part III: Findings and Questioned Costs For Federal Awards**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**SIGNIFICANT DEFICIENCIES:**

**CFDA Number 14.228: Community Development Block Grants/State's Program  
Federal Award Year: 2007  
Department of Housing and Urban Development  
Passed through the Iowa Department of Economic Development**

III-A-07      Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the handling of cash and other recordkeeping functions are performed by the same employee.

Recommendation – We realize segregation of duties is difficult with limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this

Conclusion – Response accepted

III-B-07      Financial Reporting – While planning the audit, we identified several errors in posting and classification. These were corrected by City staff. Many of these adjustments were due to lack of knowledge regarding governmental accounting by the staff.

Recommendation – The City should follow the uniform chart of accounts to ensure that all entries are recorded in the proper accounts and that federal grant revenue and expenditures are recorded in separate accounts. The City should consider providing staff with additional training in governmental accounting.

Response – The City will implement procedures to ensure the proper recording and classification of transactions, and will provide training or consultation needed to assist its staff.

Conclusion – Response accepted.

**CITY OF ROYAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Part IV: Other Findings Related to Required Statutory Reporting**

IV-A-07     Certified Budget – Disbursements for the year ended June 30, 2007, exceeded the amount budgeted in the business type function and general government function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under annual or continuing appropriation.

Recommendation – The budget should have been amended timely in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City will make an effort to amend the budget before disbursements are exceeded and will ensure the amended budget has disbursements high enough so that they are not exceeded.

Conclusion – Response accepted.

IV-B-07:     Questionable Disbursements – No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.

IV-C-07:     Travel Expense – No expenditures of the City were for travel expenses of spouses of the City officials or employees.

IV-D-07:     Business Transactions – No business transactions between the City officials or employees were noted.

IV-E-07:     Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operation.

IV-F-07:     Council Minutes – No transactions were found that we believe should have been approved by the Board minutes but were not.

IV-G-07:     Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 128 and 12C of the Code of Iowa were noted, except as follows:

The City has not approved a written investment policy as required by Chapter 12B.10B of the Code of Iowa

Recommendation – The City should approve a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Response – We currently have no investment policy. An investment policy will be drafted and adopted as recommended.

Conclusion – Response accepted.

**CITY OF ROYAL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

IV-H-07: Publication of Salaries – The City did not publish annual gross salaries in accordance with an Attorney General's Opinion dated April 12, 1978

Recommendation – Annual gross salaries should be published in accordance with Chapter 372.13 of the Code of Iowa and the Attorney General's Opinion dated April 12, 1978.

Response – We will attempt to comply with the recommendation.

Conclusion – Response accepted.

IV-I-07: Financial Condition – The Sewer Fund had a deficit balance at June 30, 2007 of \$36,098.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – We will investigate alternatives to eliminate the deficit balance.

Conclusion – Response accepted.

IV-J-07: Electronic Check Retention – Chapter 554d.114(5) of the Code of Iowa requires that if actual checks are not returned with the statement that the electronic form must also include the front and back of the instrument.

Recommendation – The City should obtain an image of both front and back of each cancelled check as required.

Response – We will contact the bank and request both the front and back of each check are included in the monthly bank statement.

Conclusion – Response accepted.

IV-K-07: Employee Benefits—City Finance Committee rules state an employee benefits tax levy may only be used on employees whose salary is paid from the General Fund or the Road Use Tax Fund. The City has used the employee benefits tax levy for employees whose salary is paid from the Water and Sewer Funds.

Recommendation – The City should only use the employee benefits tax levy for employees paid from the General Fund or the Road Use Tax Fund.

Response – We believe we have adjusted this in 2010 budget to take care of this situation.

Conclusion – Response accepted.